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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 004832

SIPDIS

STATE FOR E, EB/IFD AND EUR/SE
TREASURY FOR OASIA - MILLS AND LEICHTER
NSC FOR BRYZA

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TAGS: [EFIN](#) [PGOV](#) [TU](#)
SUBJECT: BRSA PRESIDENT ON IMAR BANK PROBLEMS (ACTION
REQUEST)

REF: A. (A) ANKARA 4770
[1](#)B. (B) ANKARA 4386

(U) Classified by Charge d'Affaires Robert Deutsch. Reason:
1.5 (b,d).

[1](#)1. (U) This is an action request -- see para 9.

[1](#)2. (C) Summary: Banking Regulation and Supervision Agency (BRSA) President Engin Akcakoca confirmed to us July 30 that the agency is facing serious difficulties trying to address the problems resulting from the discovery of massive fraud in the Uzan family-owned Imar Bank. The fundamental problem is that BRSA is being besieged by bank depositors waiving their bank books and demanding their money back (to the tune of billions of dollars), but the agency has no ability to verify accounts because Imar Bank owners/managers destroyed virtually all of the bank's records during and immediately after the takeover. Akcakoca believes perhaps 50 percent of the accounts are fictitious -- bank books with no corresponding account -- and speculated that the Uzans may have handed out bank deposit books (not backed by any account) to would-be voters. BRSA has asked public prosecutors to pursue the bank's major shareholders and 135 managers believed involved in the fraud, and wants law enforcement officials to begin detaining and interrogating these people quickly; otherwise, they have little hope of piecing together how the bank operated. Akcakoca added that initial indications are that an Uzan-owned bank in Northern Cyprus also has no records. He confided that Hakan Uzan had approached BRSA with an offer to help resolve the Imar Bank problem in return for a GOT decision to lift the travel ban on the family and to return its recently-confiscated power plants in southern Turkey. Given strong indications of massive fraud that could undermine BRSA and Turkey's efforts to reform/stabilize its banking sector, Embassy recommends that we highlight this issue at this Friday's IMF Board review and also approach the government at the ministerial level to urge aggressive investigation of this case and full GOT support for and assistance to the BRSA so it can do what is necessary to resolve the problems surrounding Imar Bank. End Summary.

[1](#)3. (C) On July 30, BRSA President Engin Akcakoca provided us with his views on the problems associated with the agency's recent take over of Uzan-family owned Imar Bank. As reported in reflets, BRSA took over management of the bank and responsibility for its \$800 million in deposit liabilities early this month. However, it has subsequently learned that the bank was keeping a second set of books and that total deposit liabilities were many times greater than officially reported, perhaps as high as \$5 billion. BRSA officials told us they thought a substantial amount of the "additional" deposits were either fictitious or consisted of offshore accounts transferred to the bank in recent days, while other accounts consisted of money legitimately deposited but never officially reported by the bank.

[1](#)4. (C) Akcakoca said that bank managers had destroyed nearly all of the bank's records, including both "official" and "unofficial" books. Financial crime investigators had managed to salvage a small amount of records, which BRSA authorities were using to piece together the bank's operations. Akcakoca believes that perhaps one-half of the deposit liabilities consist of fictitious accounts, in which the bank appears to have given bank deposit books with fictitious entries to individual "customers" (he speculated perhaps to would-be voters) with no corresponding account, and with the "customer" not actually having made any deposits. He also speculated that the bank had created a large number of such fictitious accounts in the weeks following the government's recent confiscation of the Uzan Group's power concessions in southern Turkey (ref b). In

addition, the "inflated" liabilities include an unknown number of accounts from an Uzan-family owned bank in Northern Cyprus, transferred to Imar Bank in recent days and backdated. Akcakoca noted that the governor of the central bank of Northern Cyprus had sent auditors to the bank in question, at Akcakoca's request, and the auditors had been unable to find any bank records.

15. (C) Akcakoca said the BRSA had sent two thick files to the public prosecutor's office urging criminal investigation of Imar Bank's major shareholders and 135 managers believed to have been involved in or to have knowledge of the bank's fraudulent activities. He said he "would have expected" law enforcement authorities to have detained and begun interrogations of some of these people by now, as such interrogations are the only way the BRSA is going to uncover the details of the fraud and other crimes.

16. (C) BRSA is now faced with a big problem. Every day, dozens if not hundreds of Imar Bank "depositors" -- some organized by the Uzans, per Akcakoca -- are coming to BRSA headquarters waiving duly-signed bank books and demanding their deposits back. BRSA officials know a good percentage of these accounts are fictitious or otherwise problematic, but -- with Imar Bank's records largely destroyed -- they have no way of knowing which are legitimate. If they fail to make good on the BRSA deposit guarantee in this case, they could well undermine depositor faith in the guarantee writ large, perhaps triggering a ruinous banking run. If, on the other hand, they pay back all the deposits, they reward fraud, undermine their own credibility, and create a fiscal problem for the Treasury.

17. (C) Akcakoca said BRSA's current approach consists of: (a) continuing to pore through all the records they can find; (b) counting on criminal investigations to encourage at least some bank managers to provide information; and (c) proposing new legislation. The legislation, he said, would define deposit repayment terms in a way that would enable BRSA to transfer most accounts to another bank or to offer government bonds, limiting the amount of actual cash payments. It also would make it a crime for anyone to apply for repayment of a deposit based on a claim that they knew was false (i.e., using a fictitiously-issued bank book not backed by a deposit). Finally, it would enable the Savings Deposit Insurance Fund (SDIF) under BRSA to seize and confiscate assets not only of the bank, but also of bank shareholders and officers. Akcakoca thought the courts might find the last provision unconstitutional, but argued that it was worth a try.

18. (C) At the end of the meeting, Akcakoca confided to us that Hakan Uzan (Cem Uzan's brother) had approached BRSA with the suggestion that the family would help clear up the problems related to Imar Bank's liabilities in return for the government lifting the travel ban on them and returning their confiscated electricity companies. Akcakoca, who appeared more frustrated than we have ever seen him, lamented that the public is blaming BRSA for the Imar Bank problems, even though it was the Uzan family who committed obvious fraud. He acknowledged our point that the BRSA had supervised a three-stage audit of the bank last year and pronounced it fit, but argued that no one had any indication that this type of massive fraud was underway.

19. (C) Action request: Although it will take time for authorities to put together the details of this case, there are strong indications of massive fraud and other criminal activities at Imar Bank. Moreover, the bank's activities could undermine the credibility of the BRSA and, to some extent, the progress made in reforming and stabilizing the Turkish banking system. We suggest this should be an issue for discussion with IMF staff at the scheduled August 1 Board review, given that the situation has evolved since the LOI was accepted. Embassy also recommends that we urge GOT authorities at the policy level to take steps to protect the banking system from a new, generalized crisis. Such steps would include providing firm political support for BRSA, launching an aggressive investigation into this apparent fraud and, as needed, provision of technical assistance to the BRSA so that it has the resources it needs to complete this takeover successfully. We recognize the political implications (AK Party versus the Uzans) of this matter. Nevertheless, we believe there is strong justification for the USG to press for a full, transparent, and legally-sound investigation and resolution of this case. Doing so will also reaffirm our efforts to encourage the GOT's anti-corruption drive and enforcement of rule of law.

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